SBA 1984 BUDGET REQUEST

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

WASHINGTON, D.C., MARCH 1, 1983

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SBA 1984 BUDGET REQUEST

TUESDAY, MARCH 1, 1983

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The committee met, pursuant to notice, at 9:30 a.m., in room 2359-A, Rayburn House Office Building, Hon. Parren J. Mitchell (chairman of the committee) presiding.

OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. MITCHELL. Ladies and gentlemen, I think we'll begin the hearing.

This morning we have before us the Administrator of the Small Business Administration, Mr. James C. Sanders.

The purpose of this morning's hearing is to receive testimony from SBA on the 1984 budget request for the agency. Last year, as the Administrator and the members of the committee know, I was very angry with the SBA budget as it was going in the wrong direction and proposed to eliminate direct loan funds for those who need them most: The handicapped, the economically and socially disadvantaged, and those other small businesses which cannot get funds from any other source. Last year the administration told us to have faith. The economy would improve and guaranteed loans would replace direct loans as the needed source of capital.

Fortunately, Congress recognized the folly of this proposal and continued direct loans, although at a reduced level. Experience certainly has shown that guaranteed loans have not, and never will, fill the role of direct loans.

I had hoped that the administration would learn; unfortunately and apparently it has not. So, here we go again. This year the administration again proposes to eliminate the same direct loan programs. I don't understand why such a recommendation would be made at a time when business failures in the first 7 weeks of 1983 set a new post World War II record. The 4,319 failures in the first 7 weeks of 1983 are over 3 times the 1,246 failures for the same period in 1980 and over 1,000 more than the 3,067 failures in 1982. More businesses have failed in the first 25 months of this administration—over 45,000—than in the previous 5 years, or 43,472.

It is clear to me that the high rate of business failures are a direct result of this administration's insistence on a very restrictive monetary policy combined with massive tax cuts and a profligate expansion of military spending.

I believe that the administration's efforts to eliminate SBA's direct loan program and reduce drastically the guaranteed pro-

gram are misguided. Small and medium size firms need massive amounts of credit to participate in the projected economic recovery and the country needs the thousands of new jobs these businesses will generate. In spite of this, SBA has reduced the number and dollar volume of direct and guaranteed loans by approximately 50 percent from 1981 levels. It is simply another sign of the administration's neglect of the small business community.

Let me digress from my written opening statement by sharing with you some of the things that I did yesterday. I was trying to write something about how the agencies are functioning and a thought entered my mind that there is an attempt being made to really end Federal agencies. It can be done in several ways. It can be done by, of course, cutting funds for the agencies so drastically that they become inefficient that they can't do the job they're supposed to do.

It can be done by rotating top personnel, the policymakers, so that the agency has no clear course of direction.

It can be done by promulgating a crazy quilt patch of regulations and then delaying the issuance of those regulations because during the whole time the regulations are being shaped and delayed, the agency is inefficient.

With those thoughts in mind I looked at the Environmental Protection Agency. I looked at the Economic Development Agency. I looked at HUD, and I looked at the Small Business Administration. I would be less than candid if I did not tell you that I cannot escape the thought that there is a clear-cut effort made to either, first, eliminate some agencies of Government, or second, to render them impotent in any factor.

I hope that I'm wrong, but my gut instinct tells me that I'm right.

Mr. McDade, do you have an opening statement?

Mr. McDADE. I do, Mr. Chairman. Thank you very much.

OPENING STATEMENT OF HON. JOSEPH M. McDADE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. McDADE. I want to extend my warm welcome to the Administrator who has done such a fine job, under very difficult circumstances. The economic downturn has been a severe and difficult one for all of us. I think you've had to deal not only with that, but some substantial increase in the banking community, on calls on guaranteed loans. Happily it would appear that we are, we all hope, turning a corner with respect to economic recovery, and the improvement in that climate I think will mean you will have an even busier year at SBA helping small businessowners do what they've done so many times in the past. I think that really could be the cutting edge to lead us out of the economic slump and play a tremendously important role as they always have in the rejuvenation of the economy.

Mr. Administrator, it's a pleasure to have you here and we look forward to working with you.

Mr. MITCHELL. Are there other members that have opening statements they wish to make?

OPENING STATEMENT OF HON. JOSEPH P. ADDABBO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. ADDABBO. Thank you Mr. Chairman. I will not be able to stay. At 10 o'clock we have Secretary Leahman before my other small committee of defense where we hopefully can save some money and be able to properly fund the programs which are so important to us all in the small business community, because we all know that small business is still 90 percent of our economy.

I am as disturbed as Chairman Mitchell as far as the budget as proposed before us. As I said with small business being 90 percent of our economy and looking at the record unemployment, and although there may be some slight glimmer of hope in the economic picture, we still see a tremendous depression as far as small business is concerned, particularly minority small businesses. Then as we look at this budget and we see this tremendous cut, almost abolition, in direct loans. At the same time we hear the same old song of guaranteed loans. I think every Administrator that comes before us would have something from the banking community: "The greatest boon in small business can be guaranteed loans," and that begins the story which ends with the same miserable record as we've seen in the past.

We all commended you, Mr. Administrator, when you were appointed because for the first time we had an Administrator who came out of the ranks, who had some experience, and having had that experience we had hoped for bigger and better things. But instead of that we get bigger and better destruction of small business and again, in the most important field of direct loans. We seem to be getting away from the basic law, I mean I don't know if anyone down there or in OMB knows what the basic law was. The basic law at SBA was a direct loan program to help those small businesses get started who could not obtain loans from the banks or other lending institutions. Here we see a freeze on all the direct loans except possibly, and again like the old Indians used to say, someone is talking with a forked tongue here.

The President tells us the administration's latest plans are to increase the opportunity for minority owned businesses; but today we see you're proposing $262,000 decrease of funding for the minority small business capital ownership and development program, and most important, we see a reduction of 46 people just in that program, let alone 200-odd people or 126 staff positions in SBA. Now I think this is, what they haven't been able to do by direction in destroying and cutting out the SBA, that they're trying to do by indirection.

So I'm hoping that in your statement, your testimony before the committee today, that you will tell us how you are intending to implement the President's statement that they are intending to increase opportunities for minority-owned businesses and not destroy them. How you are going to fulfill your legislative obligation to be the advocate of the small business and not to destroy small business. Also I would ask that in your testimony, and I pose this as a question, I'm hoping that you would give the background, Mr. Sanders, as to the amounts you had proposed or had made requests for to OMB other than what you've been forced to present to us

today. I would ask you as a direct question that you answer that during your testimony: Is this the budget as you requested from OMB? If not, what was your request to OMB, so that this committee may look at what the SBA request is and what the man in the Ivory Tower or Office of Meddling did to small business.

Thank you.

Mr. MITCHELL. Are there other members who have opening statements?

If not, Mr. Sanders, Mr. Administrator, we'll hear your testimony.

TESTIMONY OF JAMES C. SANDERS, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION; ACCOMPANIED BY EDWIN T. HOLLOWAY, ASSOCIATE ADMINISTRATOR FOR FINANCE AND INVESTMENT, SBA

Mr. SANDERS. Thank you very much, Mr. Chairman.

I am pleased to be here today and to address you on this important subject.

I would like to address the issues reflected in our fiscal year 1984 budget by reviewing for the committee some of the directions I have tried to provide for the Small Business Administration over the last year.

On March 9, 1982, just 1 year ago tomorrow, I appeared before the Senate Small Business Committee at confirmation hearings as Administrator. In pertinent part I told the committee:

> The task ahead . . . is no less than defining anew the proper role of SBA . . . . We cannot simply proceed . . . with programs designed, perhaps well designed, for the 1950's or 1960's . . . . It is here in the realm of new approaches, new ideas, new ways to make existing programs better, that [a] cooperative endeavor is most essential.

Given the budget deficit situation and the changing economy, we need to make fair choices throughout.

Today I have a greater appreciation of what that task entails. I believe we have made significant strides in structuring an Agency that the administration, the Congress, and most importantly the small businesses of our Nation will find responsive to the needs of a broad spectrum of businesses in this country.

Mr. Chairman, over the years even SBA's constituency has not felt that the Agency has effectively served the needs of the broadest spectrum of small businesses and we have tried to consider these criticisms in developing a better SBA.

What I hear and I am sure the committee hears also is that most entrepreneurs accept as an integral part of their efforts the fact that an opportunity to succeed carries with it an opportunity to fail. Therefore they criticize programs at SBA which remove the risk involved in any enterprise, especially if our programs do this for one business within an industry and not for others.

Free market operations are not blind to size when it comes to business enterprises; national market operations tend to move toward economic concentration. Therefore, the United States has recognized as a national policy that preservation of competition is central to the continued health and vitality of our economic system. It should not be the goal of the Small Business Administration to guarantee success but rather to provide opportunities con-

sistent with this economic philosophy. My review of SBA activities and my actions have been guided by these principles, and by asking the following questions:

Do our current programs discriminate unfairly between segments of the small business economy or between individual businesses?

Do our programs provide opportunities, as they should, or do they serve to eliminate risk, contrary to the basis of our free enterprise system?

Are they giving the opportunities to those groups for which there is a legitimate case?

Does the small business community support our activities in each program area?

Are our programs designed to meet the challenges of the eighties?

With these general goals in mind and armed with the conviction that a strong agency of Federal Government is a must, we have begun the process of providing new directions for the Small Business Administration. Central to our success is educating those who can benefit from a strong SBA that we can and are operating to further their goals, and that there is a dynamic process ongoing to insure we respond to the changing needs of smaller enterprises.

I would like to outline for the committee some of our activities consistent with these goals. With the passage of the Small Business Innovation Act we created the first major new program office in years, the Office of Innovation, Research, and Technology under the direction of Don Templeman who drafted the original bill back in 1978. We are also looking at creative ways to use our existing authorities to meet immediate needs of small businesses.

On October 22, 1982, the President announced the small business revitalization program jointly sponsored by SBA and HUD using our 503 program as an integral part of a package of Government assistance to small firms. Our budget reflects the continued commitment of the administration to this program. We have also worked on other new ways to make existing programs better, including an innovative use of lending programs to respond to economic conditions. For example:

The peso pack, directing substantial financial and management assistance resources to assist businesses affected by the Mexican peso devaluation.

The preferred lenders pilot program which I will announce in New York this afternoon, moving our financial assistance programs more toward reliance on the private sector.

The Minnesota plan, providing the opportunity through a change in our guaranteed loan regulations, for the State of Minnesota to develop a pilot program for small business financing.

Cooperative efforts in procurement including the Down River pilot project in Michigan, and establishment of the Ramsey committee to study and report to me on ways our programs can be adjusted to provide greater capital access to small business at lower prices.

Other overall efforts include: A constant review of program delivery at all levels; a central office reorganization to emphasize cross-fertilization among Agency programs by creating the position of

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Associate Deputy Administrator for Special Programs; a renewed emphasis on private sector partnerships actively seeking methods of utilizing private sector resources, and reorganization to better utilize expertise of field managers by delegated authorities to our extremely well qualified and innovative group of regional administrators.

Through implementation of Public Law 96-481 we have begun the process of providing opportunities to a greater number of minority businesses through our 8(a) program by graduating some firms, thereby allowing new firms to enter. The President's goal of achieving $5 billion in Government procurement this fiscal year indicates our strong commitment to minority business development. Another guiding principle has been what small business does and does not want from SBA.

What does small business not want? More than anything else I believe small business does not want undue direct intervention by the Government in free market operations. We have proposed the elimination of 7(a) direct loans in 1983 and 1984. No major small business group has expressed support for continuation. Ask a small businessman and the chances are that he will see them not as help for small business but as unfair discrimination against his own business.

The ratio of benefits to costs is not favorable. On the cost side we have, first of all a drain on Treasury dollars, which adds to the deficit. There is also a drain on SBA resources. We are trying to redirect our resources to areas where they will produce the greatest new increases in jobs and output. Direct loans do not fit this description.

Direct loans are few in number, take a lot of time to process and service, have high default rates and are not as productive for the economy as our other loan programs.

We have 7(a) guaranteed loans, 503 loan guarantees and the SBIC and MESBIC programs, so there are no major gaps in our panoply of finance and investment programs that need to be filled by direct loans.

I know it is easy for Members of Congress to point to increases in SBA direct lending programs as evidence of their support for small business. However, as I have mentioned, the small business community does not see it that way. I hope you will weigh your decision on this matter carefully against other endeavors in which our Agency is involved. I think you will find that our other efforts are more worthy of support and are supported to a greater extent than direct lending.

I also therefore would like to request that funds included in the jobs bill approved by the Appropriations Committee last week for direct loans be struck from the bill on the floor. These funds will not necessarily result in cost efficient permanent jobs. I hope you will support us on this so we may continue the progress begun at SBA.

I think that what small business wants above all is advocacy. Through a heightened awareness of what the small business community as a whole is doing, we as an agency are striving toward the goal of a strong voice for small business within the Government. The chief counsel for advocacy works diligently on behalf of

small businesses in evaluating policies and proposals for their effect on small business. Advocacy, however, is not just an office, it is an attitude and we are striving to insure that small business advocacy permeates our total organization.

We tend to forget SBA's activities which have effected overall policies, our involvement in insuring a fair percentage of Government procurement dollars, in shaping legislative proposals in the tax and regulatory areas, in administration of the Reg. Flex. and Equal Access to Justice Act, in pleading the case for small business within the administration.

We tend to foreget that 3,800 people nationwide, most of them in district offices, deal day to day with a myriad of small business problems which do not neatly fit into program categories. They deal with coordinating the activities of chambers of commerce, of trade associations, of State agencies, and of other Federal agencies to insure the broadest spectrum of assistance to small businesses.

Mr. Chairman, this concludes my prepared remarks. Attached to my testimony are charts which give the particulars of our 1984 budget. I would be glad to respond to questions.

[Mr. Sanders' prepared statement and accompanying charts follow:]

PREPARED STATEMENT OF JAMES C. SANDERS, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION

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DIRECT LOANS

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Mr. Chairman, this concludes my prepared remarks. Attached to my testimony are charts which give the particulars of our 1984 budget. I would be glad to respond to questions.

SMALL BUSINESS ADMINISTRATION PROGRAM LEVELS

[Dollars in millions]

	1981 actual	1982 actual	1983			1984	
			Authorized	Continuing Resolution	Budget	Authorized	Budget
General business loans	$3,009.9	$1,631.3	$2,833.0	$2,595.0	$1,927.8	$2,833.0	$1,910.0
Direct and insured percentage	205.1	114.8	125.0	85.0	17.8	125.0	.....
Guaranteed	2,804.8	1,516.5	2,708.0	2,510.0	1,910.0	2,708.0	1,910.0
Handicapped loans	26.7	13.9	20.0	20.0	8.3	20.0	5.0
Direct and insured percentage	25.0	13.1	15.0	15.0	3.3	15.0	.....
Guaranteed	1.7	.8	5.0	5.0	5.0	5.0	5.0
Economic opportunity loans	69.4	35.2	105.0	105.0	69.8	105.0	60.0
Direct and insured percentage	49.0	21.8	45.0	45.0	9.8	45.0	.....
Guaranteed	20.4	13.4	60.0	60.0	60.0	60.0	60.0
Energy loans	14.0	2.4	27.0	20.0	16.1	27.0	15.0
Direct and insured percentage	6.7	1.1	10.0	5.0	1.1	10.0	.....
Guaranteed	7.3	1.3	17.0	15.0	15.0	17.0	15.0
Development company loans	72.6	99.6	350.0	250.0	250.0	350.0	250.0
Direct and insured percentage	6.0	.....	.....	.....	.....	.....	.....
Guaranteed	66.6	99.6	350.0	250.0	250.0	350.0	250.0
Investment company loans	201.2	161.4	195.0	195.0	201.0	195.0	201.0

SMALL BUSINESS ADMINISTRATION PROGRAM LEVELS—Continued

[Dollars in millions]

	1981 actual	1982 actual	1983			1984	
			Authorized	Continuing Resolution	Budget	Authorized	Budget
Direct and insured percentage	41.2	27.3	35.0	35.0	41.0	35.0	41.0
Guaranteed	160.0	134.1	160.0	160.0	160.0	160.0	160.0
Veterans loans				25.0			
Direct and insured percentage				25.0			
Guaranteed							
Total business loans	3,393.8	1,943.8	3,530.0	3,210.0	2,473.0	3,530.0	2,441.0
Direct and insured percentage	333.0	178.1	230.0	210.0	73.0	230.0	41.0
Guaranteed	3,060.8	1,765.7	3,300.0	3,000.0	2,400.0	3,300.0	2,400.0
Disaster loans	1,522.2	236.9	(1)	440.0	440.0	(1)	440.0
Physical	1,473.0	236.9	(1)	440.0	440.0	(1)	440.0
Nonphysical	49.2						
Surety bond guarantees	1,382.5	763.8	1,400.0	1,200.0	1,080.0	1,400.0	1,080.0
Pollution control bond guarantee	100.0	50.5	250.0	250.0	150.0	250.0	150.0
Business development expense	7.7	6.2	N/A	20.0	20.0	N/A	15.0
7(j) contracts	4.3	5.8	13.7	10.0	10.0	13.7	15.0
SBDC	8.1	11.5	(1)	16.0	16.0	(1)	14.0
Employment:							
Total	4,573	4,343			4,303		4,095
Permanent	4,275	4,009			3,910		3,910

[1] Such sums as may be necessary and appropriate.

OUTLAYS

Outlays for the Agency in fiscal year 1984 are estimated to be $261,800,000. This compares to an estimate of $576,709,000 in fiscal year 1983. A comparison of outlays by fund is as follows:

OUTLAYS BY PROGRAM

[In thousands of dollars]

	1982 actual	1983 estimate	1984 estimate
Salaries and expenses	215,552	243,629	264,800
Supplemental related		3,780	
Business loan and investment fund	704,243	270,200	262,500
Supplemental related		247,100	−76,500
Disaster loan fund	−301,588	−194,000	−193,000
Lease guarantees revolving fund	1,108	3,000	2,000
Surety bond guarantees revolving fund	16,400	12,000	12,000
Pollution control equipment contract guarantees revolving fund	−4,605	−9,000	−10,000
New outlays	631,110	576,709	261,800

NEW BUDGET AUTHORITY

New budget authority for fiscal year 1984 amounts to $506,200,000. This compares to $739,109,000 in fiscal year 1983. A comparison of budget authority by fund is as follows:

BUDGET AUTHORITY BY PROGRAM

[In thousands of dollars]

	1982 actual	1983 estimate	1984 estimate
Salaries and expenses:			
Capital appropriation	221,945	218,029	248,200
Supplemental appropriation		3,780	
Business loan and investment fund:			
Capital appropriation	326,000	338,700	249,000
Supplemental appropriation transfer		[1] 178,600	
Lease guarantees revolving fund: Capital appropriation	3,000		
Surety bond guarantees revolving fund: Capital appropriation	19,000		9,000
Total new authority	569,945	739,109	506,200

[1] Transfer appropriation from the Economic Development Administration, $158,500,000 and the International Trade Administration, $20,100,000.

SMALL BUSINESS ADMINISTRATION SALARIES AND EXPENSES

ANALYSIS BY ACTIVITY

[In thousands of dollars]

	1983	Increase	Decrease	1984
Procurement and technical assistance	9,912	191		10,103
Management assistance	18,450		1,896	16,554
Small business development centers	16,000		2,000	14,000
Finance and investment	53,710	2,193		55,903
Innovation, Research and Technology	1,830		964	866
Minority Small Business:				
Capital ownership development	11,928		262	11,666
Specialized contract assistance	10,000	5,000		15,000
Business development expense		15,000		15,000
Field management	1,064		102	962
General counsel	11,995		427	11,568
Resource management	48,574	5,845		54,419
Special programs	6,091		3,105	2,986
Advocacy	5,327		27	5,300
Public communications	1,050		31	1,019
Inspector General	6,013		35	5,978
Hearings and appeals	735	16		751
Congressional and legislative affairs	560		112	448
Executive direction and field administration	27,570		1,893	25,677
Subtotal	230,809	28,245	10,854	248,200
Disaster assistance	16,600			16,600
Total planned program	247,409	28,245	10,854	264,800

Mr. MITCHELL. Thank you very much.

I will announce in advance that because so many committees of the Congress are having meetings and hearings at the same time that we will limit the questioning to 5 minutes for each member. I know that it's not a sufficient length of time, but we are going to do it in order to give all the members an opportunity to ask some questions.

Obviously we will not be able to get all of the questions answered in that timeframe. Thus, in addition, at this juncture I will ask unanimous consent that all members be allowed to submit additional questions to the Administrator.

Let me start off with my 5 minutes by asking a question alluded to by Congressman Addabbo. To what extent does the budget that you now submit to us reflect your own thinking about the needs of SBA as opposed to a budget imposed by the Office of Management and Budget and by Mr. Stockman?

Mr. SANDERS. Well, Mr. Chairman, I think that you are well aware of the process of putting together a budget. In that process there is give and take, and then we finally come to an agreement. If you've lost some arguments, you abandon those, and you proceed forward with the administration's agreed upon path, and that's where we are. I think every agency administrator has some recommendations that are not adopted and he has some of course that do finally come into the package that is presented to you.

Mr. MITCHELL. I understand the process, but with all due respect, I don't believe you're responding to my question.

In the process of compromise and give and take, what was it, 30 percent of your budget as you proposed it? Or is it 70 percent of David Stockman's budget, or 70 percent of yours?

Mr. SANDERS. I'd say this is an administration budget, Mr. Chairman. I really can't see that there is anything to be gained?

Mr. MITCHELL. I'm referring to what you felt was needed to run this Agency efficiently and effectively.

Mr. SANDERS. Excuse me for a moment.

[Pause to confer with associates.]

Mr. SANDERS. I guess I would have to look back in that budget. I don't believe we had the original one that we submitted to OMB with the figures.

Mr. MITCHELL. I am surprised that you don't. Certainly you've been before this committee and other committees before. You know that that's generally an area of great concern. It troubles me that we in the Congress who represent the people, who are supposed to serve the people, constantly confront a situation when only part of the information is given to us. I would ask that you submit to us your original budget, what you thought was good for this Agency before it was pruned and cut by the Office of Management and Budget. Mr. Administrator, I would like very much to have that within 24 hours.

Mr. SANDERS. Mr. Mitchell, I respond on the advice of counsel which, of course, I depend on a great deal, in these confrontations in which you are an expert in constitutional law——

Mr. MITCHELL. It's not a confrontation.

Mr. SANDERS. I certainly want to cooperate with you if that's possible in your request. I'll have it to you in 24 hours if that's within my prerogative?

Mr. SKELTON. Would it be possible, Mr. Chairman, if that answer was to be sent to all the members of the committee?

Mr. MITCHELL. It certainly would be. I had intended to share the response with all the members if it just came to me.

Mr. SANDERS. Mr. Chairman, I just want to add this. I think you know at any time that you want to see me and ask me about my personal views on SBA, you are certainly entitled to and I'll be glad to share them with you.

Mr. MITCHELL. You've been most cooperative in that respect and I do want to confer with you later on. Not on this issue, but on a

personnel bill. There are some things we need to talk about with regard to that bill.

It's not a matter of my being able to interface with you. You've been most cooperative in allowing me to do that. It's a matter of whether or not the Members of Congress have access to as much information as possible with regard to an agency that falls within the purview, the jurisdiction, of the committee. That's essentially what the question is. Frankly, I would be shocked and chagrined if your counsel told you that the duly elected Representatives of the people could not have a looksee at your original budget.

I renew my request that it be submitted to us within 24 hours.

[The information follows:]

U.S. SMALL BUSINESS ADMINISTRATION,
Washington, D.C., March 2, 1983.

Hon. PARREN J. MITCHELL,
Chairman, Committee on Small Business,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a copy of the budget submitted to the Office of Management and Budget for Fiscal Year 1984 which was prepared by our Office of the Comptroller. This information is furnished to you pursuant to your request at the hearing on March 1, 1983.

Yours truly,

JAMES C. SANDERS, *Administrator.*

Enclosure.

SMALL BUSINESS ADMINISTRATION—FISCAL YEAR 1984 OMB SUBMISSION PROGRAM LEVELS
(SBA'S SHARE)

[In millions of dollars]

	Fiscal year 1982			Fiscal year 1983		Fiscal year 1984		
	Request	Reconciliation	Estimate	Request	Revised [1]	Reduced	Current	Requested
General business loans	2,425	2,690	1,666	1,938	2,095	1,500	1,938	2,600
Direct	120	120	91	.....	85	.....	.....	.....
Guaranteed	2,305	2,570	1,575	1,938	2,010	1,500	1,938	2,600
Economic opportunity loans	139	145	32	167	105	70	167	167
Direct	39	45	17	.....	45	.....	.....	.....
Guaranteed	100	100	15	167	60	70	167	167
Handicapped assistance loans	20	20	13	5	20	4	5	5
Direct	15	15	12	.....	15	.....	.....	.....
Guaranteed	5	5	1	5	5	4	5	5
Energy loans	25	25	2	15	20	10	15	15
Direct	10	10	1	.....	5	.....	.....	.....
Guaranteed	15	15	1	15	15	10	15	15
Development company loans	150	150	94	150	250	100	150	300
502—Guaranteed	35	35	17	35	.....	25	35	35
503—Guaranteed	115	115	77	115	.....	75	115	265
Investment company loans	201	195	185	166	195	160	166	201
MESBIC	41	35	25	41	35	35	41	41
SBIC	160	160	160	125	160	125	125	160
Total business laons	2,960	3,225	1,992	2,441	2,685	1,844	2,441	3,288

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SMALL BUSINESS ADMINISTRATION—FISCAL YEAR 1984 OMB SUBMISSION PROGRAM LEVELS (SBA'S SHARE)—Continued

[In millions of dollars]

	Fiscal year 1982			Fiscal year 1983		Fiscal year 1984		
	Request	Reconciliation	Estimate	Request	Revised [1]	Reduced	Current	Requested
Direct	225	225	146	41	185	35	41	41
Guaranteed	2,735	3,000	1,846	2,400	2,500	1,809	2,400	3,247
Disaster loans	640	640	250	440	440	440	440	660
Surety bond guarantees	1,080	1,200	760	1,080	1,200	1,000	1,080	1,200
Pollution control guarantees	150	250	50	150	250	100	150	200
Other programs:								
Business development expense	20	20	4	15	20	10	15	20
Small Business Development Center	8.5	11.2	[2] 11.2	5	16	14	16	20
Small Business Institute	1.5	1.5	1.5	1.5	1.5	1.3	1.5	2.5
Call contracts (MA)	2.0	2.0	2.0	1.6	1.6	1.3	1.6	2.0
SCORE	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
7(j) contracts	10	10	10	15	10	10	15	15
Advocacy research	3.4	3.4	3.4	2.5	3.5	2.5	3.5	5.0
Disaster assistance	19.2	19.2	19.2	16.6	21.6	16.6	16.6	21.6

[1] House recommendation.
[2] $14.0 appropriated.

SMALL BUSINESS ADMINISTRATION—FISCAL YEAR 1984 OMB SUBMISSION; COMPARISON OF BUDGET AUTHORITY AND OUTLAYS

[In thousands of dollars]

	Fiscal year 1982		Fiscal year 1983 [1]		Fiscal year 1984		
	Request	Revised [2]	Request	Revised [3]	Reduced	Current	Requested
Budget authority:							
Salaries and expenses	221,945	221,945	[4] 228,000	218,029	[4] 224,744	[4] 250,768	[4] 291,781
Business loan and investment	326,000	326,000	143,700	965,000	[5] 628,000	[5] 640,000	[5] 648,000
Disaster loan							
Surety bond	19,000	19,000			8,000	9,000	11,000
Pollution control							
Lease guarantee	3,000	3,000	7,000	3,000			[6] 4,000
Total	569,945	569,945	378,700	1,186,029	860,744	899,768	954,781
Outlays:							
Salaries and expenses	241,145	241,145	244,600	239,629	[4] 241,344	[4] 267,368	[4] 313,381
Business loan and investment	359,000	737,558	129,900	723,000	[5] 539,000	[5] 545,000	[5] 553,000
Disaster loan	−77,000	−280,000	−290,000	−100,000	−105,000	−105,000	31,000
Surety bond	16,000	13,000	10,000	15,000	12,000	13,000	15,000
Pollution control	−16,700	−12,000	−19,300	−18,000	−6,800	−10,600	−14,300
Lease guarantee	3,000	1,200	3,000	3,000	2,300	2,300	2,300
Total	525,445	700,903	78,200	862,629	682,844	712,068	900,381

[1] See explanation of major differences (pg. 8).
[2] As reflected in the Mid-Session Review.
[3] Based on House recommendation and adjustment for revised estimates.
[4] Includes business development expenses.
[5] Includes adjustment for revised estimates.
[6] Assumes receiving $3 million in fiscal year 1983.

Mr. MITCHELL. Mr. McDade?

Mr. MCDADE. Thank you very much, Mr. Chairman.

Mr. Administrator, I have some reservations too about the complete abolition of the direct loan program that I'd like to talk with you about a little bit.

One of the things that you mention, you know, one of the things that you want is fairness and that the SBA ought to be able to fly the flag of fairness and assure our people across the country that everyone is being treated fairly, and I'm not sure that the elimination of the direct loan program does that.

Let me try and illustrate what I mean. As you know, I serve on this committee, and like others on it, I also serve on the Appropriations Committee. In fact I have to go to the Secretary of the Navy hearing as soon as I leave here. But Mr. Administrator, there are for example, you know, you can get an estimate of about 11.5 million small businesses in the country, somewhere in that neighborhood, that they've created 66 percent of the new jobs over the last decade, patent surge, et cetera. On the other side of the ledger there are about 1½ million farmers, about 10 percent as many, and I love every one of them. They provide us with more foreign exchange than any other segment of our economy. They are a leading exporter. I think we have a mutual goal in seeing our export trade with small business increased. It would be one of the leading issues that would be in front of this committee.

Yet while we're recommending the elimination of direct loans for those 11 million small businesses, at the same time we're recommending about $2.4 billion in direct loans to the agricultural segment and I'm for it. It's startup money. It's operating capital, cost of money to the Government, the same as the direct loan program used to be. So my query is, I mean I have a very difficult time justifying telling a small businessman in my city that he can no longer apply for a direct loan program, but that if he shifted businesses and went out and became a truck farmer or a dairy farmer or whatever, that he could then go into the Agriculture Department and get a direct loan.

What is your response to that?

Mr. SANDERS. I'm not up to date with the agricultural loan program. I was not aware of the precise numbers, so I never really tried to justify that. As you know, we in the SBA have tried to leave the farm lending up to the Farmers Home Administration and we feel they're the experts in that so it makes sense for them.

I think you know we have a disagreement, I guess, a friendly disagreement on the effectiveness of direct loans. We feel with our limited resources that we can make a lot more impact for both minorities and nonminorities in the other programs that we have.

Mr. MCDADE. One of the direct loan programs that we put through last year was one that we offered on the side which was a matching program. It was a direct loan program that required local participation and attempted to fold in if there was an industrial development in the State, in fact the U.S. Chambers committee on small business has endorsed that concept. It's a direct loan but there's a match sort of like a guaranteed loan program at the local level, and hopefully if there's an industrial development in the state if they're interested they can get in it too. So you have a three tiered cooperative effort.

It was not just a 100-percent direct, it was a match and it had to emanate from the bottom up. We thought that was a pretty good approach in trying to help stimulate that segment of our economy

with the kind of bottomup approach toward SBA with requirements of local participation.

I don't find that to be a difficult or a complex, but an effective way of proceeding.

You and I have had conversations about it. We've had, as you say, friendly disagreements.

Mr. SANDERS. May I respond to that?

Mr. MITCHELL. The gentleman's time has expired, but please respond.

Mr. SANDERS. I think Mr. Chairman, what I'd like to say to Mr. McDade is to set the direct lending portion aside for a moment. When he talks about the emphasis on local involvement and decisionmaking, that's something I certainly wouldn't argue with for a minute. We think that's one of the strong things about the 503 program, because it involves local decisionmaking as far as who is going to get the credit. I would also like to note that I find one of the great fallacies in the kind of understanding that people who are without any experience in small business have about entering business, is that they think the best thing for them to do is go out and get a loan when they start a business. And that sometimes is the very thing that kills them right away. What they need is equity, generally, and I think that's what we've got to address more often than lending.

One of the worst things, a small business starting out without a real track record has is a lack of knowledge of what his revenues are going to be, his expenses and other problems. It is an enormous undertaking if he's not been in small business before. Especially if he saddles himself with a debt that has to be repaid every month, and that often puts him under.

Now we've tried to establish at the agency the message that at the initial stage there must be equity investments from a partner, from a relative or from some other equity source. We hope our activities in domestics and other areas will provide some of that.

Mr. MITCHELL. I would like to indicate that we will follow a gentleman's agreement on this committee which is twofold. One, we will try to recognize the members in order of their appearance, in order of their arrival here. Secondly, because of the ratio of the committee, we will have questions from two majority members and then one minority member.

Mr. Bedell?

Mr. BEDELL. Thank you, Mr. Chairman.

Mr. Administrator, your statement goes into quite lengthy detail about how you believe direct loans do not serve very much of a purpose. You said you did not know exactly what you had asked of OMB.

My question is, when you submitted your budget to OMB did you recommend the elimination of all direct loan programs?

Mr. SANDERS. Yes, if I recall right, I requested the elimination of direct lending.

Mr. BEDELL. Does this represent a change in the attitude of the Small Business Administration within this administration?

Mr. SANDERS. You mean insofar as requested direct lending? No.

Mr. BEDELL. Let me read to you a letter I received May 28, 1981, from your predecessor, Mr. Cardenas:

With respect to the implication for direct lending in the budget reconciliation instructions, we support continuation of direct business loans.

The Senate Budget committee's position which was accepted in conference was that it would be wise to eliminate direct loans in order to expand guaranteed loans. We do not believe this expansion is warranted. Direct loans are to help small businesses so new or small that they cannot secure a bank loan even with our guarantee. These funds are also critical to our ability to license new MESBICs.

So if you were sitting on this committee and you had that letter and then you come before us and say that you recommended to OMB that there be no direct loans, would you have any other alternative to feel that there's been a significant change in the attitude of the Small Business Administration even within this administration under your leadership?

Mr. SANDERS. You cited a statement made by my predecessor. That's one I don't share.

Mr. BEDELL. But it indicates a complete change in attitude as far as your administration of the agency is concerned in regard to the support for small business with direct loans.

Mr. SANDERS. You did include in that statement something about MESBIC's and we are asking for an increase in the budgetary authority for MESBIC's.

Mr. BEDELL. But the previous Administrator said that direct loans are helpful therein also.

Well my time is short, but I think direct loans are a great concern. You indicated the small business community does not support these direct loan programs.

Do you have that confirmed in writing, that small business organizations are in favor of elimination of direct loans to small businesses?

Mr. SANDERS. It's my opinion from talking to groups, both organized and not organized, when I travel around the country, Mr. Bedell, that the small business community that is active, it overwhelmingly does not approve of the direct lending program.

Mr. BEDELL. I would like to check that out, Mr. Chairman. As far as I know, if they're not representing the small businesses that urgently need these loans in order to get lower interest rates and operate properly, then I think we ought to ask some questions about what those organizations are.

Mr. MITCHELL. Would you yield for 30 seconds?

I, too, do not accept that proposition. We had hearings with regard to the peso devaluation and all of those businesses along the California border, the Texas border, that were represented at the hearing, need direct loans. I just think it's not right to assume that the small business community, or to assume that the Democratic Party is only going in one direction, or that the Republican Party is monolithic. I don't think anybody can justify making a blanket statement saying it's not in the best interest of small business.

Thank you for yielding.

Mr. BEDELL. Mr. Sanders, and I quote from your testimony, page 2, you say:

Therefore they criticize programs at SBA which remove the risk involved in any enterprise, especially if our programs do this for one business within an industry and not for others.

On page 3 you say:

Do our current programs discriminate unfairly between segments of the small business economy or between individual businesses?

On page 6 you say:

Establishment of the Ramsey Committee to study and report to me on ways our programs can be adjusted to provide greater capital access to small business at lower prices.

On page 7 you say:

* * * What does small business not want? More than anything else, I believe small business does not want undue direct intervention by the Government in free market operations.

You further indicate your strengthening of the Office of Advocacy. I presume your Office of Advocacy is concerned not only with rulings out of your agency but out of other departments of the Government as they affect small business, is that correct?

Mr. SANDERS. I try to take the whole spectrum in, Mr. Bedell.

Mr. BEDELL. I presume you are aware of the fact that your ruling and the ruling of the Treasury Department has in effect eliminated all small businesses from tax-exempt, pollution control financing. On the other hand, big business in the first 6 weeks of this year attained $244 million of tax-exempt financing from which small business is absolutely eliminated because of rulings out of your agency and rulings of the Treasury Department.

Do you believe, do you really think we ought to have free competition, that it's perfectly fine for you to sit by and say that this big business can get tax-exempt financing for pollution control equipment mandated by the Government but that small business should be prohibited, in effect, from getting such tax-exempt financing? Do you believe that's proper?

Mr. MITCHELL. The time has expired. The Administrator, of course, may respond.

Mr. SANDERS. Mr. Bedell, it is part of the overall program for the administration to try and restrain the Federal Government from interfering in the credit market, and when you have both guarantees and tax exempt securities, we feel that you are fostering more invasion of the credit market by the Government.

Mr. BEDELL. Are you aware of the fact that small business cannot get these loans because of what this administration has done to big business?

Mr. SANDERS. You're talking about the pollution control bonds? We have made a request and requirement that they only be taxable bonds in that program. That's correct.

Mr. MITCHELL. Mr. Smith?

Mr. NEAL SMITH. Mr. Administrator, I heard your comments about direct loans in response to Mr. Bedell's questions where you say small businesses try to start needed equity. They don't have a track record yet and you made a case for participation, but you didn't advocate it. We need some type of participating debentures, don't we? That would take care of that kind of problem.

Mr. SANDERS. That's a subject that isn't here in the program. It's a very interesting area. I certainly would like to discuss that at length, but we don't have that anywhere in our——

Mr. NEAL SMITH. That's what I notice. You don't have it in your program. The thing is, there are still people out there who don't

have a track record just like you say. They don't have a history with a bank, they haven't been banking with anyone. They go down to the bank, and they want to borrow a mere $30,000, but the banker looks at him and says I don't have time to talk about $30,000. I'm making loans of $1 million or more. How do they get started? That's what the direct loan program is for. You get them started, you get a bank relationship, and after they've got a bank relationship then you can divorce them from the program. That's the whole idea of direct loans.

I would feel that the Government should get more back than just the interest on a direct loan. They ought to get a participation in the profits if they turn out to be a profitable organization. The alternative that I see in your proposal here is to go to an SBIC or somebody else, give them 50 or 75 percent interest in their venture, and they end up with almost nothing in the new business. It seems to me if we're not going to support direct loans that you ought to get into participation of some kind. Don't you agree?

Mr. SANDERS. In a philosophical sense, Congressman, I think we're both talking about equity as a preferable approach to debt when you're starting a business. I certainly wouldn't want to give 75 percent of my starting business up either unless I thought it wasn't a very good idea. But on the other hand, in my 30 years as a small businessman, I've seen so many small businessmen become croppers just because they were not willing to give something away to get equity investment so they could pursue their ideas. They just never did get the kind of capital that they needed. I certainly favor equity formation.

Mr. NEAL SMITH. I notice the reason you give to support your proposal to do away with the direct loans is none of the organizations, the small business organizations, want direct loans. Well if you went to General Motors and asked them if they thought there ought to be another automobile company they would say no. You're talking about the insiders now. The ones that are in business don't want anybody from the outside to come in. Of course, that's the answer you'll get there.

But if you go talk to some of these people that would like to get into business, that would like a loan of $20,000 to provide a job in a community that needs that job provided, then you'll get a different kind of an answer.

There is some $200 million for direct loans in the jobs bill, and I'm for it. I put it in there and I intend to support it. I just think if we don't have that kind of money available for direct loans for starters for people, then we sure ought to have some program on a participating dimension.

Mr. SANDERS. Of course we have no program with supporting participating debentures. It's an idea that has been around for some time in the way of answering how small business can create capital. But as far as direct loans are concerned, Congressman, I respectfully disagree with a part of your thesis that says this is the way for small businesses that can't otherwise get any kind of support or don't want to surrender any kind of an equity to get going. I think what happens is you end up with this very high loss ratio and you really haven't done a lot of those businesses a favor by giving them that loan because their chances of success are quite

limited and they have no bank relationship and that's why they come to the SBA.

Mr. NEAL SMITH. On the other hand, now there is a long list of big businesses that got started with direct loans for a small business.

Mr. SANDERS. From the SBA?

Mr. NEAL SMITH. Yes.

Mr. SANDERS. I don't know if there is a long list. We certainly have pretty good successes in the SBIC program.

Mr. NEAL SMITH. The biggest packing company in the United States got started with a small business loan. There are a lot of them around. If they didn't get a bank relationship to start with, they would be out of business. My neighbor to the left volunteers that he's one of them too.

Mr. MITCHELL. The gentleman's time has expired.

Mr. Chappie?

Mr. CHAPPIE. No questions.

Mr. MITCHELL. Mr. Bilirakis?

Mr. BILIRAKIS. Mr. Chairman, thank you. I don't know that I have any questions as such because I'm not sure that we've had the information available to us long enough to peruse it and analyze it the way we would like to.

I don't know that it's a good idea to eliminate direct loans completely. I'm sure there must be some meritorious instances when direct loans would be pertinent. But I hate to think that this committee is just concerned with the philosophy that money is the answer to everything and that making money available to any businessman who might decide to start a business is the answer.

Now I am a small businessman. I have been for many years. I think I can talk with experience. Some of our businesses have done better than others. Those that did not had the same amount of money available to them. They just didn't have the knowledge available to them.

I would like to see some information from the Small Business Administration in terms of what are they doing regarding spreading the knowledge around among small businesses, getting them at the inception of the small business, starting them off on the right path. I talked with some of your senior members in my office the other day about this, sir. I would like to see you help us help the people in our district to give them the opportunities as you say. We don't want you to guarantee success. We don't want to guarantee that there are no risks. But I think that we would be helping them more from an opportunity standpoint if we were able to lay out for them basically the ground rules that they should be following and that sort of thing. Then down the line somewhere if they need the money and if there is some available and if they merit it, then fine. But giving them money alone is not going to guarantee them success. It's going to be good money going in after bad.

Thank you.

I guess I'm asking for some information, Mr. Chairman, regarding these areas that greatly concern me. In other words, what are we doing to help these small businesses in areas other than just money, because money is not the answer.

Mr. MITCHELL. I understand perfectly where you're going. Before the Administrator responds, I will apologize to all of the members of the committee over the matter of the lateness with which the testimony was provided to us.

Mr. SANDERS. I apologize.

Mr. MITCHELL. It becomes exceedingly difficult to conduct a hearing with any degree of intelligence when we receive the statement as of 9:15 this morning. Quite frankly the only reason I did not cancel the hearing altogether was because of the convenience of the members. I will ask the Administrator and all of the witnesses who will appear before this committee in the future, that their testimony be in our hands at least 24 hours before the hearing. It's only a matter of fairness that we have access to the information which you wish to submit to us in a timely fashion.

I did not cancel the hearing this morning only because I respect the members of the committee and I know their busy schedules. Unless something very unusual develops, it will be my policy from this point on to simply cancel if material is not received in a timely fashion.

Do you wish to respond to Mr. Bilirakis?

Mr. SANDERS. Yes, and before I do that I'd like to apologize on behalf of the Agency and the Administration for not getting it here in a timely basis. There really isn't any excuse for that.

Mr. Bilirakis, I'd like to take the opportunity to tell you that one of the directions that this Agency has now is that we consider management assistance to be one of the most fundamental and important things that we do. Not that this Agency has to provide it or go into the counseling and training of businesses altogether, but to see that something is going on and that relates to our delegation and our relationships and leverage through the educational and private sector to achieve the availability of the kind of information small business people need, because we know that most failures come from a lack of management experience.

Mr. MITCHELL. Mr. Britt?

Mr. BRITT. Thank you, Mr. Chairman.

In looking at one of the handouts in regard to direct loans which are proposed to be eliminated, the trend also on the guaranteed loans is down. It would seem to me like if you're coming from an argument that the direct loan is not good and the guaranteed loan is good, that that would be a reversal. Can you explain the decline on the guaranteed loans?

Mr. SANDERS. Mr. Britt, I think the basic reason for that is we have not experienced the kind of demand that has approached any of the budgetary authorities we've been given in this program for several years. If we detect with the dropping interest rate, the pickup of the economy, some change, then we will certainly reconsider these requests.

Mr. BRITT. I'd also like to ask about the export area. In my district I think probably the best thing that can be done for the small businessman is to increase his knowledge about exporting and how to go about doing it.

I understand that there are 17 staff persons presently authorized in your agency in that area and that you are proposing to cut that back to 15. The other question is, Are you fully staffed on that

now? I think exporting is an area that needs emphasis and we are no longer looking at a domestic market. We're in competition in an international marketplace, and the small businessman, the big businessman can afford to have expertise to do that, but if we're going to expand our exports I think it's got to have emphasis. If you're proposing to cut back there, I'd like to know why that proposal is that way and just whether or not you're fully staffed there now.

Mr. SANDERS. First of all, concerning the direction of that program, we feel strongly that one of the great undeveloped opportunities for small business people is in exporting. We also believe, as I'm sure you do, that our country is going to become a global partner in the global economy. America for too long has not been aware of the global market as have other strong industrial nations, but we are waking up. Recently I attended an international convention of small and medium-sized businesses in Japan where this was underscored in unforgettable detail. I think the passage of the trading company legislation is going to be a great help to small businesses.

Now insofar as what we are doing at the SBA, it's mainly a job of connecting people to the opportunities and of cooperating with the Department of Commerce, the bank, the overseas private corporations, and such institutions as that to plug in the small business people who are interested in exporting.

As you know, we did institute last year a credit program for exporters in the SBA. We'd like to see that used more in connection with the other facilities. There are a few problems. We're going to come up with a recommendation concerning Americans that are overseas trying to import American goods that are not available for some of the programs we have here in the United States. We're going to make some recommendations in that area. Insofar as your comment about the 15 of the 17 people, the real problem there isn't whether it's 15 or 17, it's finding really 10 qualified regional export specialists. We've had a lot of disappointments in our hiring because when we go out with the kind of incentives and salaries that we have to attract an experienced person, we lose out in the competition oftentimes. But we still have managed to pick up some slack in that area and we are going forward with our export program beginning the middle of March.

I guess what I'm saying is we're going forward with the troops we have. I think it will be sufficient for the short run. I hope in the long run we get experienced people in each region.

Mr. BRITT. I guess my question is a commitment to really move ahead. A commitment to staff, to make loans, on that revolving flow. Is that being implemented? Are you making loans?

Mr. SANDERS. Yes, we've made loans in that particular program. As a matter of fact, one of them is in trouble right now. But otherwise, we would like to make more of them. I think the real problem has been one of making the small business person aware of the opportunities they might seek in international trade. But I think we are beginning to address that problem of awareness by showing small business the opportunities and how they can export their goods. The export trading company legislation is going to help that.

So the small businessman doesn't have to build the apparatus. He can plug into it.

I think when we get that all hooked together in a know-how situation, you'll see a lot more request and demand for our revolving credit.

Mr. BRITT. A final point. I think it's very good to say that the small businessman should seek equity. My experience in my district as an attorney dealing with small businesses trying to get established is that sometimes they may have an excellent idea. I've seen one business that I think could revolutionize the energy field but it has gone without any funding because it couldn't obtain that kind of funding. For that reason I think direct loans are required. In some cases there is no equity until we provide another vehicle as has been suggested here. I don't think you simply can say that equity is the way to go because that's not the direction that many small businesses have the opportunity to take.

Mr. MITCHELL. Mr. Sisisky?

Mr. SISISKY. Thank you.

Are you opposing H.R. 1043 which is the Commerce Business Daily bill?

Mr. SANDERS. Let me get briefed on that one, Mr. Sisisky.

Mr. DAUB. May I ask the Gentleman to let us know more precisely what he's talking about?

Mr. SISISKY. Yes. The bill that passed the House last week or the week before last; it has a companion bill in the Senate, S. 272.

Mr. DAUB. Are we talking about the 8(a) or bonding? Oh, OK, the number of days. We have so many numbers floating around here, in acronyms and alphabets, and 17,000 bills.

Mr. SANDERS. We're a little confused over here whether we're talking about the proposals that put the Defense Department into a lending or capital equity formation for small business which is an idea or proposed bill of the administration.

Mr. SISISKY. No sir, the 15 days.

Mr. SANDERS. The Commerce Business Daily bill? Oh, OK.

What was your question?

Mr. SISISKY. Are you in opposition to that bill?

Mr. SANDERS. We made a statement on that bill, Mr. Sisisky, that we were looking at remedies within the administrative procedures we have now, hoping that OFPP could come up with remedies. But I think it's gone beyond that. I believe you've already reported that out.

Mr. SISISKY. That's what I don't understand. How can you be in opposition to that bill when you clearly say that there are problems in the defense acquisition procedures? You clearly stated in your statement, I'll be glad to read it to you what you said to the Senate, that you think you can solve the problem administratively. You haven't solved it. Obviously that's why the Congress is enacting legislation.

Mr. SANDERS. We said that we would be back to you. You went on and reported the bill out and it's on its way. I think our testimony is irrelevant now.

Mr. SISISKY. Was your agency opposed to it?

Mr. SANDERS. Our agency was in a neutral position, saying we had felt there had been demonstrated a need for some kind of

change in the advance warning, but we felt we should give the established procedures a little more time to work. That is administratively rather than a change in the law.

Mr. SISISKY. I am confused, but all right.

Let's get back to the pollution control problem that Mr. Bedell talked about.

I'm really not very clear, he talked about six large companies floating some $240 million in bonds in the last 6 weeks.

Has the Government ever lost anything on small business pollution control under your guarantees program?

Mr. SANDERS. Let me get you up to date.

Mr. Holloway, who is the Associate Administrator responsible for the bond program, has some more up to date figures.

Mr. HOLLOWAY. Congressman, we have had some default payments made now under the pollution control bond guarantees program. They have not been large, but we have had as many, I believe, as about 18 cases now that some payments have been made.

I suppose it's fair to say that the large businesses that take advantage of the tax-exempt bonds do so without a Government guarantee, and it's the Government guarantee in conjunction with the tax exempt status that raises the problem for us policy wise.

Mr. SISISKY. What is your default rate?

Mr. HOLLOWAY. Congressman, I would be pleased to submit for the record a default rate if our records reflect that in our most recent loss studies.

Mr. SISISKY. My understanding is that is 1.5 percent. That's fairly low. Would that be a ballpark figure?

Mr. HOLLOWAY. There has been a low incidence of default. Although within the last year from a time in which there were no defaults, we have now about 18 of record.

Mr. DAUB. Default rate or repurchase of the guarantee?

Mr. SISISKY. Default.

Mr. HOLLOWAY. With respect to default, we do consider a default at the point that one payment is missed for that matter.

Mr. SISISKY. I notice your 1982 actuals were $50.5 million. Why so little? Was it the amount of work that you created?

Mr. HOLLOWAY. The program was initially structured to work on the basis of the guarantee of the tax-exempt issues. At the point in time that the policy changed, it became necessary to start over, getting the underwriters, the banking community, the brokers, and the people who work in this program, back in to brainstorm about how we might make this program work on the basis of taxable issues. In fact, we do have it rolling again now. There have been, I believe, eight approvals in the neighborhood of $18 or $19 million worth of financings on a taxable basis. Of those eight approvals, some five have been completed, two are pending completion within the next 30 days, and one has been withdrawn. We are gearing up to do it on a taxable basis.

Mr. SISISKY. What is in your pipeline right now? Do you have any figure?

Mr. HOLLOWAY. It would be under 25 cases in which response was made to our contact with the companies who had submitted applications under the tax-exempt basis.

Mr. MITCHELL. The gentleman's time has expired. If you want to complete your answer, go right ahead.

Mr. HOLLOWAY. There are about 38 expressions of interest from over 100 cases that we had pending on the tax-exempt basis, and of those 30-plus expressions of interest, some 8 have gone forward to completion.

Mr. MITCHELL. Mr. Molinari is recognized for 5 minutes.

Mr. MOLINARI. Mr. Sanders, you received a little criticism here today. I think you might be ready for a compliment and I want to compliment SBA for the new enforcement attitude that seems to prevail.

I've had constituents come into my office irate because SBA expected to get their loans repaid. I must tell you that in some cases, the people really had the ability to pay. They were well heeled and couldn't understand the change of attitude, and why are we now being expected to pay back this loan? We never had to before. So I compliment you and your agency for going out there and picking up the money where it can be.

On the question of default with the direct loans, I don't know that I have any problem with eliminating direct loans because my own experience has been that my clients, I'm a lawyer, or my constituents, have never been able to get direct loans. I've always had a feeling that there was political pull that was required or something else, maybe worse, in order to get these loans. But I'd like to find out, if you have the information available, what is the default rate?

You mention in your prepared statement, "They have high default rates." Can you give us some idea of what that rate was?

Mr. SANDERS. We were just talking about that, Mr. Molinari. The final loss rate on direct loans is about 13 percent. I think that compares to something like 10 percent on the guaranteed.

Mr. MOLINARI. The other question I have which I think somebody alluded to earlier, if in fact you are going to eliminate the direct loans, can you give us some idea if the demand exists, how many more guaranteed loans you're going to be able to make? If the direct loans are going to be discontinued, we can assume there are going to be more guaranteed loans that will follow, assuming the demand is also there?

Mr. SANDERS. That's my view of it. We're going to, I think, be seeing a lot more activities among the banks in the new preferred lending program that we have which creates a lot less burden of work.

Mr. MOLINARI. That's a pilot project?

Mr. SANDERS. That's correct.

Mr. MOLINARI. Outside of that, can we expect, if the direct loans are eliminated, that there will be an increase in the amount of guaranteed loans to the business people out there that are looking for them?

Mr. SANDERS. I think so, Congressman. We have taken a message to the banking community. We're going to be repeating it frequently this year, that we feel they have something to prove here. Small business after all, is a lot better investment than foreign loans. That is to say that we wouldn't reflect on the foreign loans, but after all, we think sometimes the banks turn their back on the guy

around the corner who is in small business, and we know traditionally that they're at the back of the line, and I think some of the bankers are rethinking that. I've had some expression of that sentiment from west coast banks already.

Mr. MOLINARI. What I'm getting at, is your agency going to have more funds available for the guaranteed loan program with the elimination of direct loans?

Mr. SANDERS. I feel I answered the question a little earlier about the level of loans. We feel the demand is pushing the limit that we have, then we're going to reconsider that limit and see that it gets adjusted.

Mr. MOLINARI. Thank you.

Mr. MITCHELL. In your budget submission there is a reduction in the guaranteed loan program, is there not?

Mr. SANDERS. That's correct. From 1984 to 1983.

Mr. MITCHELL. As I recall your budget, the direct loan funding program was reduced, was it not?

Mr. SANDERS. The 1983 and 1984 budget figures on guaranteed loans are both $2.4 billion, Mr. Chairman. Of course the actuals in 1982 were $1.76 billion.

Mr. MITCHELL. That is related only to a rescission that was sent by OMB. Since that rescission was rejected by Congress, then there is reduction.

Mr. SANDERS. No, the actual amount, we had a ceiling of $3 billion, but in 1982 only $1.7 billion was used.

Mr. MITCHELL. That's a part answer to Mr. Molinari's question. Mr. Olin?

Mr. OLIN. Mr. Sanders, I'd like to ask you a couple of questions in the minority area. On the sheet that shows salaries and expenses for 1984 and 1983, you're showing $50 million for business development expense and $5 million more than last year on specialized contract assistance for small business. I'd like to ask you if you can tell me a little bit more about specifically what that program is and what is the nature of the development that you're going to carry out.

The number of people indicate you are cutting down the number of people in your organization related to minority small business. Could you describe more fully what this extra development money is, how it will be spent and what it's going to accomplish?

Mr. SANDERS. You're talking about businesss development expense?

Mr. OLIN. Yes. Take that first.

Mr. SANDERS. It's used to give to 8(a) firms who are in the program and get a contract, some funds for adding equipment or machinery or things that have almost any kind of a use that they need to gear up for the kind of a contract that they have.

Mr. OLIN. What about the subject of special contract assistance?

Mr. SANDERS. Well, of course, those funds for this year have been placed out fully, contracted out. There was a moratorium, I think, before I came into this job, on 7(j) funds in the 1982 budget. But this year we pushed forward. Those are call contracts that are placed on competitive situations with private people to provide counseling and management assistance.

Mr OLIN. None of those expenses relate to your staff, I take it?

Mr. SANDERS. That's correct.

Mr. OLIN. If I'm reading the figures here right, last year you had $20 million in the budget for new business development and $10 million for 7(j) contracts. You only ended up spending $10 million of that $30 million. I'd like some assurance that actually you are committed to doing the kind of a job to promote small minority business development that your budget would indicate that you are planning.

Mr. SANDERS. Probably the program that we spend most of our time on is this program. It is certainly the most sensitive area. It's one that we are extremely concerned about. It's one of our top priorities that we do increase and fulfill the President's statement of increasing minority business development. We're doing everything we can to make these programs responsive to that.

We feel there's been a neglect in this area, particularly in the 8(a) program of developing firms to participate in the economic mainstream. That was the whole purpose of the program.

Mr. OLIN. Why was it last year that you did not spend the money that was budgeted for that activity?

Mr. SANDERS. The 7(j) funds that were not expended were the result of several decisions made prior to my arrival in the job. We're trying to correct that this year. We're, as a matter of fact, making arrangements with the Minority Business Development Agency at Commerce to play a role in the funds they have in helping the firms that graduate from the 8(a) program hook in with the kind of assistance they need in order to be part of the mainstream.

Mr. OLIN. I look forward to working with you on that. The minority businesses in my area have been very critical about the ability to get help under the 8(a) program, and if you're committed to providing that help this year, I think it will be much appreciated.

Mr. SANDERS. Thank you.

Mr. MITCHELL. The gentleman's time has expired.

Mr. Savage?

Mr. SAVAGE. I'm puzzled by your saying you're doing all you can to help minority businesses. Aren't you in the process right now of reducing the staff in the minority business office in half?

Mr. SANDERS. Not half. We feel that one of the problems in the minority business administration has been the staff in the central office.

Mr. SAVAGE. But you're reducing it.

Mr. SANDERS. Well, we're eliminating some positions that we feel have not been helpful to the program.

Mr. SAVAGE. You consider by reducing that staff you're helping minority businesses?

Mr. SANDERS. If we eliminate some people that are preventing the distribution of these contracts across the country, yes.

Mr. SAVAGE. Is it not true that you are also preparing to kick out of the 8(a) program a substantial number of minority businesses?

Mr. SANDERS. We are. As is well known we've finally achieved a graduation term last year in the spring for these firms, that was requested by Congress in the fall of 1980 by passing Public Law 96-481, and they recognized that this program had been going on for 10 or 12 years without any graduation. We have achieved that and in the next 15 months some 400 firms may graduate. Of course

they have the right to appeal for an extension. The exit of some firms will allow us to bring new firms in, and hopefully these new firms are going to receive more assistance, certainly in the management assistance area and financial assistance than the others did.

Mr. SAVAGE. You know that many of them are already operating under an extension. In my constituency, your program is not called a graduation program, but a dropout program because these businesses contend that they are being pushed out of the program before they've learned enough to graduate.

Let me just contrast that with another figure. How do you account for reducing the number of applicants that are accepted into the 8(a) program, that is, on one hand you want to push them out at a higher rate than ever, right? And on the other hand, you want to accept them at a lower rate than ever. Is that not what's going on?

Mr. SANDERS. No; that's not what's going on.

Mr. SAVAGE. Are as many firms being accepted into the 8(a) program presently as there were before the present administration came into office?

Mr. SANDERS. Are there as many firms accepted into the program as what?

Mr. SAVAGE. As before.

Mr. SANDERS. I don't know what years you're comparing with the size of the program, but let me say we are dedicated to putting in more than 500 new firms, certainly in the next 12 months when some 400 will graduate, so we'll have a net increase in the number of firms that are admitted.

It's one of the great disgraces of this program that there have not been more admittants into this program. The firms that have had no opportunity and particularly outside of the east coast——

Mr. SAVAGE. What I'm trying to get at is the net increase to which you would refer. Is that not a decrease as compared to the net increase 2 years before that? In other words, aren't you going backward when you say you're trying to help? The net increase in the past 12 months in 8(a) certified firms, won't that net be less than it was 2 years ago?

Mr. SANDERS. You mean the net number of firms in the program?

Mr. SAVAGE. The net increase.

Mr. SANDERS. I don't know what the net increase was 2 years ago, Congressman. I don't really know what the net increase has been in the last 12 months in actual numbers because when we created the graduation agreement last spring, some 400 firms did not agree, so all right, we lost 400.

Mr. SAVAGE. I'm sorry to hear that, Mr. Sanders, because if you don't know what the net increase was prior to this, how can you know that you're helping rather than hurting minority firms? You don't know which way the trend is.

Mr. SANDERS. I don't need to know those numbers. I measure the effectiveness of this particular program by the kinds of contracts and the kind of condition that these firms are in now and the steps that we are making to improve the program and its effectiveness. It has not been effective across this country.

Mr. SAVAGE. You mentioned also, I think I heard you say, that on your direct loans you have a default rate of 13 percent.

Mr. SANDERS. That's correct.

Mr. SAVAGE. Would that also mean in the reverse that 87 percent of the firms who receive direct loans succeeded in repaying it, which is another way of saying that 87 out of every 100 of the firms that are participating in the direct loan program are succeeding and never could have gotten a bank loan to start with otherwise? Isn't that a very encouraging rate? If 100 firms could not get a bank loan and by SBA programs 87 of them were able to prove that they deserved the loan to start with but would not have had it had it not been for the direct loan program, doesn't that make you want to think again about cutting that program back?

Mr. MITCHELL. The gentleman's time has expired.

You may respond.

Mr. SANDERS. I just want to say to the Congressman, I don't think the loss rate of 13 percent is as good, of course, as the guaranteed loss rate. I still think that I would like to pursue some of those areas in the equity situation. I believe that's a better way to proceed.

Mr. SAVAGE. Mr. Chairman, may I say this in conclusion?

In the Administrator's statement, he points out that most businesses accept the fact that an opportunity to succeed carries with it an opportunity to fail. I assure you those businesses coming through my office, minority businesses, find it the other way around. They have the opportunity to fail. They're having trouble hooking it up with an opportunity to succeed.

Mr. MITCHELL. Thank you. May I interject here that based upon what I think is a significant recall, the dollar volume of contracts for minority firms over the last 2 years has dropped by something like $150 million, and the number of contracts entered into has seen an equally precipitous drop.

Mr. SANDERS. Mr. Chairman, may I add one comment to that? These numbers get a little confusing from time to time, but the EOL section of that lending had higher net losses, but that's not the important thing.

The 13 percent represents the residue after liquidation and sale of collateral. A failure rate probably is double that and that means that somebody who got a loan that maybe shouldn't have had it invested some of their savings and some of their own collateral and failed. Not only did the taxpayer lose the money, but that poor person who was involved in that kind of an operation lost their equity and their investment. That's the thing that I think you have to be careful about.

Mr. MITCHELL. When I get a chance, when it's my turn to raise questions again, I'm going to come back to this subject, simply because of the policy in the past that all of the members of the committee heard about, there were direct loans that were not made available to people because of duplicity.

Mr. Roth? Is Mr. Roth still with us?

Mr. Daub?

Mr. DAUB. Thank you.

Mr. Administrator, I guess my friend, I want you to know that I am delighted to have one of the Reagan administration team clear-

ly able to prove that he can do more with less, and I know it's been difficult for you, but I think the overwhelming number of small businesses in America who have taken the back seat in the streetcar to the major influences of big business through the funding of Government programs and subsidized rates of interest, are indeed proud to have had the last year of your administration because they finally now can get help in many other ways.

I know the 500 minority businesses that I was with last Friday, who have all received more contracts as a result of your efforts have been able to survive these very trying times, are most appreciative of your work.

I have a small business, 8(a), in a qualifying section of my own congressional district as you know, so we help people qualify for the program instead of telling them that we're sorry that they don't seem to be able to get the help otherwise.

I would like to address the guaranteed loan program, and I understand that the guaranteed repurchase rate is very high. Could you explain why the rates are so high and whether this recession has shown any differences from previous recessions and previous administrations, because I think that's a very important point that needs to be made.

Mr. SANDERS. Congressman, there has been a very precipitous rise that we observed at the beginning of last spring in the repurchase rate, and it is true that when you combine the recession with the high interest rates, people that made loans ran into trouble. But strangely enough the highest percentage of these failures came out of loans that were made in the years 1978, 1979, and 1980.

Mr. DAUB. We expected them to be 1 percent, 3 percent, 5 percent, 3 percent, 1 percent. Now 1981, 3 percent; 1985, 5 percent; 1979, 5 percent. Why were the losses so great to all of these businesses?

Mr. SANDERS. Those ratios went up to about double.

Mr. DAUB. What were the actual figures? Do you have them?

Mr. SANDERS. Yes, I have the figures here.

Mr. DAUB. For 1979, 1980, 1981, all the loans made as a result of policy of the previous administration.

Mr. SANDERS. I will submit that to you. We have looked at that data.

[The information follows:]

SMALL BUSINESS ADMINISTRATION—GUARANTEED PURCHASE STUDY

[In percent]

	Purchase rates [1]	
	Previous	Current [2]
Fiscal year:		
1982	0.63	1.12
1981	4.03	7.16
1980	6.19	10.98
1979	3.42	6.07
1978	2.43	4.32
1977	1.87	3.33
Total	18.57	32.98

[1] Purchase rates are based on a correlation analysis of purchases of guaranteed loans to the year disbursed.
[2] Experience factor based on historical data as of the close of fiscal year 1982.

Mr. DAUB. What accounts for all this, Mr. Administrator?

Mr. SANDERS. A whole combination of effects. Certainly the lack of a healthy business environment is a great contributing factor. The lack of business activity. The burden of the Federal Government in the credit markets. Small business people trying to compete for credit when the Government is crowding them out.

Mr. DAUB. I thought the Small Business Administration was supposed to give money to anybody that asked for it.

Mr. SANDERS. We don't have that much money, of course. And I don't think that would be very well placed.

Mr. DAUB. I want to ask you about two other things.

I want to comment to you first, that I agree with my colleague from Iowa with respect to the small business participating debentures. You know that's a White House conference recommendation.

Mr. Chairman, I hope one of our subcommittees this year will look into the matter. This legislation that you and I both cosponsored, it's a part of the record here, and I think it's time the administration took a good serious look at the potential, such as the MESBIC and the SBIC I think that the small business participating debenture ought to be a part of our budget concepts in the future and I hope you'll spend some time on that.

Mr. SANDERS. Our advocacy program is looking at that.

Mr. DAUB. I'd like to have that.

Where are we now with respect to small business size standards?

Mr. SANDERS. Small business size standards should be signed off by Friday. They are up in my office being reviewed. They've been reworked a number of times as you well know. I don't propose that we have a divine insight into what the perfect size standard for each industry is, but I think we have a pretty good grip on what is going to be understood by the whole business community and we're going to put it out.

Mr. DAUB. Would you submit those to our chairman so he might cause them to be distributed to our committee so that we can at the earliest opportunity commence to take a look at those comments?

Mr. SANDERS. We had the comments back, and as you know, to prolong it any more would be an imposition on the small business community.

Mr. DAUB. My last point would be, I would like the record to show that I generally believe that the direct loan program is a program whose time has passed. That the processes of making guaranteed loans to qualifying businesses with a great emphasis on minority 8(a) set asides, the cooperative effort that this administration needs to make, your department needs to make with the Commerce Department, I'm delighted to see that you're going to implement those ideas to help the graduating 8(a) firms obtain assistance in other parts of our Government because some of them will still need some help, but by and large, I really believe that we are making a move in the right direction. And quite honestly I would hope that this administration will set the example for less direct loans in many other departments of our Government.

Thank you.

Mr. MITCHELL. Mr. Roemer?

Mr. ROEMER. Thank you, Mr. Chairman.

I want to thank the Administrator for answering directly the chairman's admonition about testimony being submitted 24 hours in advance. It would really help us, and I thank you for that direct answer.

I would like a couple more direct answers, if I could. Unlike your statement in which I find a sentence which reads under the title "Other overall efforts include," it says, and I read, "A central office reorganization to emphasize cross-fertilization among agency programs, et cetera."

Maybe it's my Louisiana upbringing, but I find that very difficult to read and impossible to understand. So in the vein of your direct answer to the question as to why your testimony didn't come earlier, what is the cost to the tax payer of your department of Government?

Mr. SANDERS. We have a proposed budget for the operation of the agency of $248 million.

Mr. ROEMER. The net cost to the taxpayer's treasury is $248 million a year? That's it?

Mr. SANDERS. That's the operation of salaries and expenses. Then you get into the projection for the operations of repayments, buybacks, purchases, income from these various funds and the anticipation of disasters.

Mr. ROEMER. Could you submit for the record if you don't have it in your capability right now, as to what is the cost for the taxpayer for the last calendar or fiscal year for the SBA.

Mr. SANDERS. For 1982?

Mr. ROEMER. Yes.

Mr. SANDERS. Our net outlays in 1982 were $632 million, or $631,770,000.

Mr. ROEMER. $631 million and change.

What do we get for that, Mr. Administrator? It's another way of asking the question that I sense needs to be asked given your testimony today, and your attitude on such things as direct loans. Why do we need an SBA? I mean what are you doing for America?

Mr. SANDERS. This is a question that I ask each constituency that we go to. When I get with the small business people I ask them is what we are doing in management assistance important? What if we didn't do anything? We had almost 500,000 contacts in 1982 in our management assistance program. That's got to tell you that somebody out there must want that kind of assistance. We made over 20,000 loans, guaranteed, participated in. I sit down with bankers and say, is our program worth anything? I mean what we're doing, is it really important? If we weren't there, would things go on just like they would? Most of the time the answer comes back, you create a situation for us that helps us help the small businessperson by enabling us to make a term loan that we wouldn't make otherwise in our bank. We couldn't take that risk. So you do provide an important ingredient.

Now if that percentage is only 1 to 3 percent in the community, well it's still important. It's a critical dimension. I think it is a function that we do provide pretty well. When it comes to the equity investment area, the SBIC program, in spite of some crop-

pers that come up once in a while that hit the headlines, they don't mention such participation the SBIC is in such as Apple Computer, such as Lane Laboratories, Federal Express, Cray Research. There have been a lot of real winners in this program, and I think in the SBIR program that's been going, and just really 1980's program, is going to provide an enormous way to have venture capital approach new innovation and technology.

When it comes to the 8(a) program, I think a great deal has been achieved in that program. It only saddens me that a great deal more hasn't been accomplished in building strong, viable, minority firms. In our advocacy program, we reach out and touch an enormous amount of the business community across the country. We have people that receive constantly input from either organized business or individual businesses and we try and establish a data base for small business which is sadly lacking in this country. Nobody can tell you within several million how many small businesses there are.

Mr. ROEMER. I'm not even sure what the definition of a small business is.

Finally, as I peruse over the next few days the testimony that we got late, although I'm glad we got it, your budget, your formation of policy, I'm going to look at that information with an eye toward your answer to this final question, quickly if you would.

As Administrator of the SBA, do you believe that this agency deserves a chance to grow and do the kinds of things that you just mentioned it ought to do, are you an advocate of the position you hold? I find that some people in this administration have taken jobs and in fact they don't advocate the efficiency and effective operation of the very jobs that they've taken. Are you one of those, or do you believe in the program that you administer?

Mr. SANDERS. Wherever I've gone around this country I've made it quite clear that I'm not only an advocate for small business, but for the Small Business Administration. I believe in its role, its mission, and I will defend it against anyone. The only challenge we really have is to make this agency more effective, so that it penetrates every area of small business. I firmly believe that small business is going to lead us out of this recession. Small, innovative, and medium-sized business.

Mr. MITCHELL. Mr. Cooper?

Mr. COOPER. No questions.

Mr. MITCHELL. Mr. Smith?

Mr. CHRISTOPHER SMITH. Welcome to the committee. It's very good to see you again.

First of all, I want to compliment you on your statement, but more on your answers. They have been very decisive and have illuminated a number of issues for this committee. I find them very good.

I have a couple of questions. First of all you mentioned, and let me just again compliment you on really recognizing the role of the Small Business Administration, and that is advocacy, whether it be here within Government as you pointed out in your testimony, or out in the field, which as you said some 500,000 management assistants contacts over the last year. I know in my district many people have benefited from that. We have directed many people to

the SBA Office in our State, and they have come back to tell us that they did receive very, very fine information and some good advice.

You mentioned in the testimony that the small businesss does not undo direct intervention by Government and free market operations. It is difficult to define what undo is. I do have concern about the elimination of the direct loan program, particularly as it relates to the handicapped program. I know that we've had since 1980 some 751 handicap loans made in this country, 716 of which were direct, 35 were guaranteed. I hope that this committee, and I know I will gladly offer an amendment if it's not part of the chairman's budget, will seek to retain at least this direct loan program.

I have a great deal of interest with the others, but this one more than any other, I think has served its purpose. The handicap loan program has the least default rate of any of the loan programs and it has certainly proved its worth I think over the last several years.

So it's not really a question, but more of a comment, that this particular member is concerned about preservation of that direct loan program, and I hope the committee will concur.

Mr. MITCHELL. Let me assure you that I've advocated a direct loan program since I've been here, and in no way has my advocacy for that program diminished.

We'll continue the policy of recognizing the two Democrats and one Republican. I will put one or two questions to you, if I may.

In my opening statement I expressed the fear that agencies can destroy effective programs simply by not implementing them. Let me go back to an issue that Mr. Olin approached.

In 1982 the Congress in its wisdom appropriated $20 million for the business development expense fund. SBA obligated only $6.2 million. Was the agency intentionally curtailing that? The contract assistance program that Mr. Olin referred to. In 1982, the Congress, after weighing all the facts, hearing all the testimony, appropriated $10 million for the 7(j) management assistance program. SBA obligated only $5.8 million. Was the agency intentionally trying to destroy that program?

In terms of the surety bond guarantees, in the first 4 months of this fiscal year, SBA has approved only $180 million in guarantees of surety bonds. If this rate continues, you will have approved less than $540 million for the entire year, less than the $763 million approved last year.

When you look at these figures it appears that there is a pattern that emerges which says we're going to definitely try to scuttle some programs.

How do you defend against that pattern?

Mr. SANDERS. I think you and I have a different approach to management of an agency, Mr. Chairman, and I respectfully note that there is a slight difference. We try to see that this agency survives through good management. We're trying to make quality improvement in everything we do, in each program. We cannot force bonds on people who are not prepared to do work. It depends largely on the demand, and a lot of the instances you cite do relate to the demand, the lower demand of the business activity in the past year.

Insofar as your 7(j), I must say as far as what happened in the balance of 1982, those things were set in motion before I got here. By the time I got on top of them and came into this fiscal year, I have told you this 7(j) program for this present year is fully funded, and certainly the BDE is going to go right along with the development of these firms in the 8(a) portfolio. I anticipate it will be fully used. But we do disagree on the, on some other levels. I just don't see that we can go out and force all of these things on people. We have to have quality.

Mr. MITCHELL. There is no intention to force anything on anyone, none whatsoever. I find it strange that a committee of Congress hearing testimony from many diverse groups, comes up with a set of needs based upon that testimony and then you suggest it's a difference in the way an agency should be managed. It's not that at all. It's a question of whether this committee is going to be responsive to the need as expressed through a whole series of hearings.

You have an engagement in New York at what time?

Mr. SANDERS. I want to take a 12 o'clock shuttle. I was going to take the 11 o'clock shuttle.

Mr. MITCHELL. I'll forego my other questions.

Mr. SANDERS. I'm sure we'll have some future meetings.

Mr. MITCHELL. We aren't going to have many future meetings on your budget because the budget process as you know, has been stepped up, and I think it would be relatively important that we get some clarification with reference to the figures that you have presented and the derelictions that have occurred in the past, not necessarily under you, but as part of the thrust of the agency.

I will forego my questions in trying to accommodate you. I'm not at all sure that it will be reciprocated.

Mr. BEDELL. I sit here, and the problem is I get mad. And the reason I get mad is, under this administration, and I hope everybody realizes what is happening, that the rulings out of this administration have said that big business can go ahead and get tax-exempt pollution control financing and small business cannot. You've said small business is going to lead us out of this recession. If it is, I can't sit here and understand how in the devil an administration can say we're going to let big business get tax-exempt financing, but we're going to put in rulings that prevent small business from doing it. I can't understand for the life of me if you really believe that small business is going to pull us out, why you would have policies that absolutely discriminate against small business. I asked Mr. Chapin if that would be the case when he considered changing the attitude, and he said no, he absolutely would not. When I met with somebody before the elevator, I don't know whether Democrat or Republican, they said at least this administration is fair to everybody. They've got tax cuts for the wealthy and program cuts for the poor. That's exactly what's happening in business as well, and that would be fine if you didn't admit that small business is the thing that's going to pull us out.

Thank you very much, Mr. Chairman.

Mr. MITCHELL. Mr. Boehlert?

Mr. BOEHLERT. Thank you.

I would like to identify with the remarks of my colleague from New Jersey with respect to the handicap loans programs in gener-

al. It seems to me we would be in the wrong direction. I would appreciate it if you would provide my office more specific information on that program.

[The information follows:]

SMALL BUSINESS ADMINISTRATION—HAL LOAN APPROVALS; ACTUAL

[Dollars in millions]

	Direct and immediate participation			Guaranteed			Total		
	Number	Gross	SBA share	Number	Gross	SBA share	Number	Gross	SBA share
Fiscal year:									
1982	168	$13.5	$13.1	4	$.9	$.8	172	$14.4	$13.9
1981	254	25.6	25.1	21	1.9	1.7	275	27.5	26.8
1980	250	20.2	19.9	8	.4	.3	258	20.6	20.2
1979	277	21.0	21.0	11	1.3	1.1	288	22.3	22.1
1978	306	23.1	22.8	10	1.3	1.1	316	24.4	23.9
1977	200	13.8	13.3	5	1.3	1.0	205	15.1	14.3
Transition quarter	35	2.0	2.0				35	2.0	2.0
1976	140	10.7	10.0	12	.7	.6	152	11.4	10.6
1975	69	5.4	5.0	10	1.4	1.1	79	6.8	6.1
1974	70	5.3	4.7	7	.9	.8	77	6.2	5.5
Total	1,769	140.6	136.9	88	10.1	8.5	1,857	150.7	145.4
Outstanding September 30, 1982							1,290	93.1	90.6

Mr. MITCHELL. Mr. Weber?

Mr. WEBER. Thank you, Mr. Chairman.

Mr. Sanders, I'll be brief. First of all, your proposal indicates the elimination of 99 temporary positions and I just wonder if the question hasn't already been asked, if you could tell us where those positions are going to be eliminated. Specifically, will they affect your exemplary debt collection?

Mr. SANDERS. No. We have kept the debt collection people involved. It's a miscellaneous of temporary people that we're talking about. It does not affect the debt collection.

Mr. WEBER. Something is going to have to suffer. I don't argue with that. I think you have to make prioritizations. I would like to know what judgments you made in that regard.

Mr. SANDERS. Sometimes when you look at some of these programs in agencies and offices, it's not always necessarily true that the more people you pack into a room or a program the better it is. Sometimes they get in each others way. I think there are some efficiencies that we have discovered that we can make in allocation of personnel. We're continuing to do that. It's not an easy problem given, as you know, the civil service regulations under which you have to work. To get the right person in the right slot is an extremely difficult challenge.

Mr. WEBER. How many of these positions might be in the field?

Mr. SANDERS. I would have to do some research. I would submit that to you.

Mr. WEBER. I would be interested in that.

Another question, if you look at the loans made by SBA over the last year or 2 years or whatever time period you like to use, one of the questions we hear on just about every economic policy issue

that comes up in this Congress is geographic impact. Do you have any kind of a generalized idea of how SBA moneys are distributed geographically?

Mr. SANDERS. Yes, we have some idea by region and again, I can give you those.

Mr. WEBER. Can you describe for me even in nonspecific terms what kind of an impact SBA has through their lending policy?

Mr. SANDERS. Geographically we've had a pretty good spread in the lending area. We are concerned about the lack of geographic spread in the 8(a) program.

Mr. WEBER. Where are these centered?

Mr. SANDERS. Most of those are concentrated here in Washington. There is some natural proclivity to come to Washington to do business with Federal contracts, but beyond that, there should be some effort made, I think, to see that people that don't have expensive lobbyists or attorneys representing them in the city of Washington will get a break in the 8(a) program. Those people are stuck out all over the countryside.

Mr. WEBER. I would appreciate also the specific response in writing if you could provide it on those questions. And finally, I have a more general question, but I think it's important because as we talk about this direct loan program and guaranteed loans, I think there is a tendency for us to think of the SBA almost in a vacuum when really what we're concerned about is the health of the total small business economy.

[The information referred to above follows:]

SMALL BUSINESS ADMINISTRATION,
Washington, D.C., March 25, 1983.

Hon. VIN WEBER,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN WEBER: In response to your request at the budget hearing on March 1 concerning information showing the distribution of SBA funds by region, I am enclosing a chart prepared by our Office of the Comptroller. In addition, you requested data on the number of employees in the field offices. There has been a reduction of 66 man-years from 1983-1984. The Agency has tried to protect permanent positions and, therefore, some of the temporary slots will be eliminated.

I look forward to working with you and if I may be of further assistance, please be in touch.

Yours truly,

JAMES C. SANDERS,
Administrator.

Enclosure.

LOAN APPROVALS BY REGION
FY 1982 thru September
(Dollars in thousands)

Business Loan Fund	Region I			Region II			Region III			Region IV		
	Allotted	Approval	Balance	Allotted	Approval	Balance	Allotted	Approval	Balance	Allotted	Approval	Balance
7(a) Business Loans												
Direct & IP	6,720	6,653	67	16,850	16,672	178	9,235	9,233	2	12,802	12,801	1
Guaranteed	113,000	99,862	13,138	151,800	134,419	17,381	116,300	93,929	22,371	196,700	181,402	15,298
Total	119,720	106,515	13,205	168,650	151,091	17,559	125,535	103,162	22,373	209,502	194,203	15,299
7(h) Handicapped Loans												
Direct & IP	926	924	2	905	905	-	1,058	1,058	-	1,176	1,139	37
Guaranteed	200	196	4	-	-	-	-	-	-	-	-	-
Total	1,126	1,120	6	905	905	-	1,058	1,058	-	1,176	1,139	37
7(i) Econ. Opportunity Loans												
Direct & IP	1,300	660	640	4,700	4,605	95	2,800	1,421	1,379	3,400	1,536	1,864
Guaranteed	1,400	840	560	4,800	3,459	1,341	3,900	1,681	2,219	3,700	414	3,286
Total	2,700	1,500	1,200	9,500	8,064	1,436	6,700	3,102	3,598	7,100	1,950	5,150
7(l) Energy Loans												
Direct & IP	745	720	25	-	-	-	328	328	-	-	-	-
Guaranteed	134	133	1	-	-	-	-	-	-	-	-	-
Total	879	853	26	-	-	-	328	328	-	-	-	-
Development Company Loans												
Guaranteed 502	-	1,314	-	-	1,746	-	-	-	-	-	2,164	-
Guaranteed 503	-	13,396	-	-	3,597	-	-	2,748	-	-	4,841	-
Total	25,500	14,710	10,790	9,300	5,343	3,957	5,000	2,748	2,252	8,300	7,005	1,295
Total Business Loans												
Direct & IP	9,691	8,957	734	22,455	22,182	273	13,421	12,040	1,381	17,378	15,476	1,902
Guaranteed	140,234	115,741	24,493	165,900	143,221	22,679	125,200	98,358	26,842	208,700	188,821	19,879
Total	149,925	124,698	25,227	188,355	165,403	22,952	138,621	110,398	28,223	226,078	204,297	21,781

*Amounts aren't divided between 502 and 503 loans, but allotted in total.

LOAN APPROVALS BY REGION
FY 1982 thru September
(Dollars in thousands)

Business Loan Fund	Region V			Region VI			Region VII			Region VIII		
	Allotted	Approval	Balance	Allotted	Approval	Balance	Allotted	Approval	Balance	Allotted	Approval	Balance
7(a) Business Loans												
Direct & IP	18,952	18,950	2	25,050	20,896	4,154	7,000	6,987	13	2,770	2,712	58
Guaranteed	286,000	255,541	30,459	312,400	209,886	102,514	157,500	149,737	7,763	119,500	107,024	12,476
Total	304,952	274,491	30,461	337,450	230,782	106,668	164,500	156,724	7,776	122,270	109,736	12,534
7(h) Handicapped Loans												
Direct & IP	3,937	3,920	17	1,820	1,779	41	634	633	1	818	792	26
Guaranteed	20	16	4	464	463	1	-	-	-	-	-	-
Total	3,957	3,936	21	2,284	2,242	42	634	633	1	818	792	26
7(i) Econ. Opportunity Loans												
Direct & IP	4,400	3,319	1,081	7,500	4,897	2,603	1,300	319	981	900	407	493
Guaranteed	4,700	3,245	1,455	8,200	1,767	6,433	2,300	23	2,277	2,800	692	2,108
Total	9,100	6,564	2,536	15,700	6,664	9,036	3,600	342	3,258	3,700	1,099	2,601
7(l) Energy Loans												
Direct & IP	20	20	-	125	-	125	91	91	-	-	-	-
Guaranteed	490	310	180	538	538	-	135	-	135	300	300	-
Total	510	330	180	663	538	125	226	91	135	300	300	-
Development Company Loans												
Guaranteed 502	-	4,202	-	-	346	-	-	282	-	-	890	-
Guaranteed	-	19,393	-	-	6,269	-	-	5,179	-	-	1,581	-
Total	23,800	23,595	205	13,800	6,615	7,185	7,300	5,461	1,839	3,900	2,471	1,429
Total Business Loans												
Direct & IP	27,309	26,209	1,100	34,495	27,572	6,923	9,025	8,030	995	4,488	3,911	577
Guaranteed	315,910	282,707	32,303	335,402	219,269	116,133	167,235	155,221	12,014	126,500	110,487	16,013
Total	342,319	308,916	33,403	369,897	246,841	123,056	176,260	163,251	13,009	130,988	114,398	16,590

LOAN APPROVALS BY REGION
FY 1982 thru September
(Dollars in thousands)

Business Loan Fund	Region IX			Region X			Agency Wide			Unallotted Balance	Program Level
	Allotted	Approval	Balance	Allotted	Approval	Balance	Allotted	Approval	Balance		
7(a) Business Loans											
Direct & IP	15,050	14,398	652	5,550	5,505	45	119,979	114,807	5,172	21	120,000
Guaranteed	166,200	162,179	4,021	141,000	122,518	18,482	1,760,400	1,516,497	243,903	849,600	2,610,000
Total	181,250	176,577	4,673	146,550	128,023	18,527	1,880,379	1,631,304	249,075	849,621	2,730,000
7(h) Handicapped Loans											
Direct & IP	1,297	1,286	11	679	679	-	13,250	13,115	135	1,750	15,000
Guaranteed	54	54	-	50	50	-	788	779	9	4,212	5,000
Total	1,351	1,340	11	729	729	-	14,038	13,894	144	5,962	20,000
7(i) Econ. Opportunity Loans											
Direct & IP	5,000	4,283	717	1,200	318	882	32,500	21,765	10,735	12,500	45,000
Guaranteed	2,800	885	1,915	1,900	385	1,515	36,500	13,391	23,109	23,500	60,000
Total	7,800	5,168	2,632	3,100	703	2,397	69,000	35,156	33,844	36,000	105,000
7(l) Energy Loans											
Direct & IP	-	-	-	-	-	-	1,309	1,159	150	8,691	10,000
Guaranteed	-	-	-	42	-	42	1,639	1,281	358	13,361	15,000
Total	-	-	-	42	-	42	2,948	2,440	508	22,052	25,000
Development Company Loans											
Guaranteed 502	-	7,289	-	-	-	-	-	18,233	-	-	-
Guaranteed	-	20,182	-	-	4,160	-	-	81,346	-	-	-
Total	37,000	27,471	9,529	9,600	4,160	5,440	143,500	99,579	43,921	6,500	150,000
Total Business Loans											
Direct & IP	21,347	19,967	1,380	7,429	6,502	927	167,038	150,846	16,192	22,962	190,000
Guaranteed	206,054	190,589	15,465	152,592	127,113	25,479	1,942,827	1,631,527	311,300	897,173	2,840,000
Total	227,401	210,556	16,845	160,021	133,615	26,406	2,109,865	1,782,373	327,492	920,135	3,030,000

Mr. WEBER. Could you describe for me a little bit how you see the health of the small business economy today? Particularly I'm interested in numbers of new business starts and failure rates for those new businesses.

Mr. SANDERS. I think you may have seen those figures, Mr. Weber, but certainly failures are up. Nobody has any blinders on about the recession and the difficulties of that, and it particularly affects small business. But at the same time we had a record number of new business formation in 1981 and it was only diminished by 4 percent, almost 600,000 businesses were formed in 1981. That's a record all time. So we have record failures and we have record formations. Someone aptly remarked, you know we're going to see change in the world in the economy. The basic industries of this country are changing. We're having to respond in different ways. Sadly enough, people are having to learn two or three skills in one lifetime as particular industries become obsolete. We live in a global economy and I think the SBA has to be aware of all these forces at work in the world as well as the United States, and we have to respond to that. But I am optimistic that small business has always been the most creative, the most resourceful, it rebounds the quickest. I think that's where some of the greatest industries in the 1990's will start to form now, in the 1980's, in the small and medium-sized business arena. We want to see that that's helped.

Mr. WEBER. I appreciate that.

I think those figures on new business starts are really important for us if we're going to keep in perspective what's really happening in the small business economy. Although there is a lot of bad news out there, there's also a lot of good news, a lot to be hoped for. A lot of hopeful dynamics are taking place in the private sector of the economy that we ought to encourage.

Thank you.

Mr. MITCHELL. I've served on this committee since I came to the Congress in 1970. I've served under Presidents Nixon, Ford, Carter, and under President Reagan. From the inception, from the time I first got on this committee, there had always been a discernible growth on the part of SBA in terms of helping small businesses and a discernible growth in minority businesses, efforts with the Federal Government. Up until 1980. And the precipitous drop across the board in the Small Business Administration sorely tests me when it comes to responding to or analyzing your statements that indeed you are an advocate and a friend of small business. The precipitous drop does not suggest this.

You are a good soldier, you carry out administrative policy. But I would insist that policy in many instances has been inimical to the best interest of minority businesses.

Having made that statement, the hearing is adjourned.

[Whereupon, at 11:25 a.m., the committee adjourned, to reconvene, subject to call of the Chair.]

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